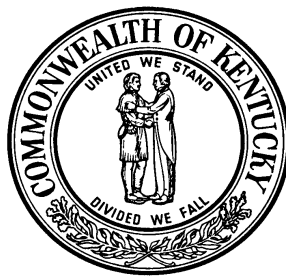


**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2012**



**ADAM H. EDELEN
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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable David Fields, Butler County Judge/Executive

Members of the Butler County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise Butler County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Butler County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2012**

Peercy and Gray, PSC, has completed the audit of the Butler County Fiscal Court for fiscal year ended June 30, 2012. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$5,346,220 as of June 30, 2012. The fiscal court had unrestricted net assets of \$1,714,181 in its governmental activities as of June 30, 2012 with total net assets of \$5,331,081. In its business-type activities, total net cash and cash equivalents were \$15,139 with total net assets of \$15,139. The fiscal court had total financing obligations of \$1,123,155 as of June 30, 2012 with \$155,138 due within the next year.

Report Comments:

2012-01 The Fiscal Court Should Obtain Appraisals For The Purchase Of Land As Required By KRS 67.080

2012-02 The Fiscal Court Should Maintain A Current Listing Of Capital Assets

Deposits:

As of June 30, 2012, the fiscal court's deposits were insured and collateralized by bank securities.

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PEERCY AND GRAY, PSC

Certified Public Accountants

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable David Fields, Butler County Judge/Executive

Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Butler County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Butler County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable David Fields, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butler County, Kentucky's basic financial statements as a whole. The combining fund financial statements and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole. The budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2012 on our consideration of Butler County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

2012-01 The Fiscal Court Should Obtain Appraisals For The Purchase Of Land As Required By KRS 67.080

2012-02 The Fiscal Court Should Maintain A Current Listing Of Capital Assets

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

December 13, 2012

BUTLER COUNTY OFFICIALS**For The Fiscal Year Ended June 30, 2012****Fiscal Court Members:**

David Fields	County Judge/Executive
Stevie Givens	Magistrate
Johnny Tuck	Magistrate
Chad Tyree	Magistrate
David Whittinghill	Magistrate
Keith Daugherty	Magistrate

Other Elected Officials:

Melissa Cardwell	Circuit Court Clerk
Richard Deye	County Attorney
Terry Fugate	Jailer
Shirley Givens	County Clerk
Scottie Ward	County Sheriff
Angela Pendley	Property Valuation Administrator
Marty Jones	Coroner

Appointed Personnel:

Susan Johnson	County Treasurer
Sandy Keown	Occupational Tax Administrator
Kim Phelps	Finance Officer
Kim Phelps	Personnel Officer
Timmy West	Road Supervisor
Kelly Fugate	Jail Administrative Assistant/Bookkeeper

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BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2012

BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2012

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,769,084	\$ 15,139	\$ 1,784,223
Total Current Assets	1,769,084	15,139	1,784,223
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	486,933		486,933
Buildings	726,596		726,596
Other Equipment	689,375		689,375
Vehicles and Equipment	100,412		100,412
Infrastructure Assets - Net of Depreciation	2,681,836		2,681,836
Total Noncurrent Assets	4,685,152		4,685,152
Total Assets	6,454,236	15,139	6,469,375
LIABILITIES			
Current Liabilities:			
Financing Obligations	155,138		155,138
Total Current Liabilities	155,138		155,138
Noncurrent Liabilities:			
Financing Obligations	968,017		968,017
Total Noncurrent Liabilities	968,017		968,017
Total Liabilities	1,123,155		1,123,155
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,561,997		3,561,997
Restricted For:			
General Health and Sanitation	26,124		26,124
Debt Service	28,779		28,779
Unrestricted	1,714,181	15,139	1,729,320
Total Net Assets	\$ 5,331,081	\$ 15,139	\$ 5,346,220

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,392,040	\$ 675	\$ 384,280	\$
Protection to Persons and Property	776,282	88,891	279,238	
General Health and Sanitation	169,217			
Social Services	38,525			
Recreation and Culture	10,024			
Transportation Facilities and Services	141,716			
Roads	1,278,197		2,155,041	
Interest on Long-term Debt	46,001			
Capital Projects	496,136			
Total Governmental Activities	4,348,138	89,566	2,818,559	
Business-type Activities:				
Jail Canteen	55,429	51,772		
Total Business-type Activities	55,429	51,772		
Total Primary Government	\$ 4,403,567	\$ 141,338	\$ 2,818,559	\$

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Net Profit Taxes

Occup. Taxes

Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,007,085)	\$	\$ (1,007,085)
(408,153)		(408,153)
(169,217)		(169,217)
(38,525)		(38,525)
(10,024)		(10,024)
(141,716)		(141,716)
876,844		876,844
(46,001)		(46,001)
(496,136)		(496,136)
(1,440,013)		(1,440,013)
	(3,657)	(3,657)
	(3,657)	(3,657)
(1,440,013)	(3,657)	(1,443,670)
271,909		271,909
14,892		14,892
76,115		76,115
142,712		142,712
708,619		708,619
228,975		228,975
164,324		164,324
11,149		11,149
139,398		139,398
1,758,093		1,758,093
318,080	(3,657)	314,423
5,013,001	18,796	5,031,797
\$ 5,331,081	\$ 15,139	\$ 5,346,220

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2012

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund	Debt Service Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,001,237	\$ 570,455	\$ 46,053	\$ 3,137	\$ 25,642
Total Assets	<u>1,001,237</u>	<u>570,455</u>	<u>46,053</u>	<u>3,137</u>	<u>25,642</u>
FUND BALANCES					
Restricted For:					
General Health and Sanitation	26,124				
Debt Service				3,137	25,642
Assigned To:					
Protection to Persons and Property			46,053		
Transportation Facilities and Services					
Roads		570,455			
Unassigned:	<u>975,113</u>				
Total Fund Balances	<u>\$ 1,001,237</u>	<u>\$ 570,455</u>	<u>\$ 46,053</u>	<u>\$ 3,137</u>	<u>\$ 25,642</u>

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Total Non-Major Governmental Funds	Total Governmental Funds
<u>\$ 122,560</u>	<u>\$ 1,769,084</u>
<u>122,560</u>	<u>1,769,084</u>
	26,124
	28,779
	46,053
115,125	115,125
7,435	577,890
<u> </u>	<u>975,113</u>
<u>\$ 122,560</u>	<u>\$ 1,769,084</u>

Reconciliation to Statement of Net Assets:

Amounts Reported For Governmental Activities In The Statement
Of Net Assets Are Different Because:

Total Fund Balances	\$ 1,769,084
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	7,736,987
Accumulated Depreciation	(3,051,835)
Financing Obligations Are Not Due And Payable In The Current Period And, Therefore, Are Not Reported In The Funds.	<u>(1,123,155)</u>
Net Assets Of Governmental Activities	<u>\$ 5,331,081</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	General Fund	Road Fund	Jail Fund	Properties Corporation Fund
REVENUES				
Taxes	\$ 1,293,853		\$	\$
In Lieu Tax Payments	149,369			
Excess Fees	164,324			
Intergovernmental	336,599	1,790,808	279,238	
Charges for Services	675		88,891	
Miscellaneous	42,572	19,709	29,789	46,305
Interest	7,200	3,949		
Total Revenues	<u>1,994,592</u>	<u>1,814,466</u>	<u>397,918</u>	<u>46,305</u>
EXPENDITURES				
General Government	656,604			
Protection to Persons and Property	95,852		591,932	
General Health and Sanitation	163,217			
Social Services	38,525			
Recreation and Culture	10,024			
Transportation Facilities and Services				
Roads		1,459,522		
Debt Service	45,171	60,331		44,468
Capital Projects	477,954	315,830		
Administration	613,007	272,487	204,196	
Total Expenditures	<u>2,100,354</u>	<u>2,108,170</u>	<u>796,128</u>	<u>44,468</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(105,762)</u>	<u>(293,704)</u>	<u>(398,210)</u>	<u>1,837</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	248,866	282,667		
Transfers To Other Funds	(440,000)	(130,793)		
Transfers From Other Funds	130,793	4,163	440,000	
Total Other Financing Sources (Uses)	<u>(60,341)</u>	<u>156,037</u>	<u>440,000</u>	
Net Change in Fund Balances	(166,103)	(137,667)	41,790	1,837
Fund Balances - Beginning	1,167,340	708,122	4,264	1,300
Fund Balances - Ending	<u>\$ 1,001,237</u>	<u>\$ 570,455</u>	<u>\$ 46,054</u>	<u>\$ 3,137</u>

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2012
(Continued)

Debt Service Fund	Total Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$ 1,293,853
		149,369
		164,324
47,681	364,233	2,818,559
		89,566
	1,023	139,398
		11,149
<u>47,681</u>	<u>365,256</u>	<u>4,666,218</u>
		656,604
	25,000	712,784
		163,217
		38,525
		10,024
	141,716	141,716
		1,459,522
46,733		196,703
	16,019	809,803
1	79,505	1,169,196
<u>46,734</u>	<u>262,240</u>	<u>5,358,094</u>
<u>947</u>	<u>103,016</u>	<u>(691,876)</u>
		531,533
	(4,163)	(574,956)
		574,956
	<u>(4,163)</u>	<u>531,533</u>
947	98,853	(160,343)
24,695	23,707	1,929,428
<u>\$ 25,642</u>	<u>\$ 122,560</u>	<u>\$ 1,769,085</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH
BASIS

For The Year Ended June 30, 2012

Net Change In Fund Balances - Total Governmental Funds	\$ (160,343)
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	1,217,011
Depreciation Expense	(357,257)
Book Value of Disposed Assets	(500)
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets. Lease And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources.	
Financing Obligation Proceeds	(531,533)
Financing Obligations Principal Payments	<u>150,702</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 318,080</u></u>

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BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2012

BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2012

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 15,139
Total Current Assets	<u>15,139</u>
 Net Assets	
Unrestricted	15,139
Total Net Assets	<u><u>\$ 15,139</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 50,579
Total Operating Revenues	<u>50,579</u>
Operating Expenses	
Cost of Sales	22,582
Educational and Recreational	3,924
Personnel Costs	8,424
Sales Tax	1,328
Miscellaneous	<u>2,000</u>
Total Operating Expenses	<u>38,258</u>
Operating Income	<u>12,321</u>
Nonoperating Revenues (Expenses)	
Inmate Pay From State	1,193
Fees Submitted to Fiscal Court	(13,724)
Fees Submitted to Circuit Clerk	(118)
Inmate Refunds	<u>(3,329)</u>
Total Nonoperating Revenues	<u>(15,978)</u>
Change In Net Assets	(3,657)
Total Net Assets - Beginning	<u>18,796</u>
Total Net Assets - Ending	<u><u>\$ 15,139</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2012

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 50,579
Payments to Suppliers	(28,506)
Payments to Employees	(8,424)
Payments to Others	<u>(1,328)</u>
Net Cash Provided (Used) By Operating Activities	<u>12,321</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	1,193
Fees Submitted to Fiscal Court	(13,724)
Fees Submitted to Circuit Clerk	(118)
Inmate Refunds on Accounts	<u>(3,329)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(15,978)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,657)
Cash and Cash Equivalents - July 1, 2011	<u>18,796</u>
Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 15,139</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	<u>\$ 12,321</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 12,321</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS-MODIFIED CASH BASIS

June 30, 2012

BUTLER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS-MODIFIED CASH BASIS

June 30, 2012

	<u>Agency Fund</u>
	<u>Health Reimbursement Account Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 71,819
Total Assets	<u>71,819</u>
Liabilities	
Amounts Held In Custody For Others	<u>71,819</u>
Total Liabilities	<u>71,819</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Butler County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provided their services exclusively or almost entirely to the primary government, or their governing bodies are substantially the same as the primary government. The county has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on the organization. The organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Butler County Properties Corporation

The Butler County Properties Corporation was established for the purpose of providing long-term financing for approved projects. The Butler County Fiscal Court is financially accountable for the component unit as part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Butler County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These offices are not part of the Butler County reporting entity.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for the payment of long-term debt principal and interest.

Properties Corporation Fund – The purpose of this fund is to account for debt service requirements of debt issued by the fiscal court. The Department For Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Reeds Ferry Fund, and Rochester Ferry Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Reeds Ferry Fund, and Rochester Ferry Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Debt Service Funds

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

The Butler County Properties Corporation Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Enterprise Fund

The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Health Reimbursement Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Health Reimbursement Account (HRA) Fund – This fund accounts for funds held by the county for the county employees participating in the flexible spending arrangement.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, furniture and fixtures, machinery, equipment, vehicles, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized for Governmental Funds but is capitalized to Proprietary Funds. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 5,000	3-25
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed, or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed, or assigned.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require a formal budget to be adopted for the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institutions' failure, the county's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 236,933	\$ 250,000	\$	\$ 486,933
Total Capital Assets Not Being Depreciated	236,933	250,000		486,933
Capital Assets, Being Depreciated:				
Buildings	1,665,114	108,688		1,773,802
Other Equipment	1,156,503	378,567	(93,600)	1,441,470
Vehicles and Equipment	475,956	54,866		530,822
Infrastructure	3,079,070	424,890		3,503,960
Total Capital Assets Being Depreciated	6,376,643	967,011	(93,600)	7,250,054
Less Accumulated Depreciation For:				
Buildings	(1,003,129)	(44,077)		(1,047,206)
Other Equipment	(750,155)	(95,040)	93,100	(752,095)
Vehicles and Equipment	(395,284)	(35,126)		(430,410)
Infrastructure	(639,110)	(183,014)		(822,124)
Total Accumulated Depreciation	(2,787,678)	(357,257)	93,100	(3,051,835)
Total Capital Assets, Being Depreciated, Net	3,588,965	609,754	(500)	4,198,219
Governmental Activities Capital Assets, Net	\$ 3,825,898	\$ 859,754	\$ (500)	\$ 4,685,152

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 44,194
Protection to Persons and Property	63,498
General Health and Sanitation	6,000
Roads, Including Depreciation of General Infrastructure Assets	<u>243,565</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 357,257</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Financing Obligations

A. Courthouse

On September 24, 1997, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2012 was \$229,000. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2013	\$ 41,000	\$ 12,348
2014	43,000	9,910
2015	45,000	7,356
2016	48,000	4,661
2017	52,000	1,768
Totals	<u>\$ 229,000</u>	<u>\$ 36,043</u>

B. Properties Corporation

On March 23, 2011, the Butler County Properties Corporation entered into an agreement with Morgantown Bank and Trust. The agreement was for the development of industrial property. The company occupying the industrial property has agreed to pay the debt service in exchange for the property deed. The principal was \$450,000 at a rate of 5.5% interest for a period of 360 months, with interest and principal paid monthly. Principal outstanding at June 30, 2012 was \$405,830. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2013	\$ 22,287	\$ 22,069
2014	23,562	20,794
2015	24,910	19,446
2016	26,286	18,070
2017	27,839	16,517
2018-2022	164,955	56,824
2023-2027	115,991	9,684
Totals	<u>\$ 405,830</u>	<u>\$ 163,404</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Financing Obligations (Continued)

C. Sheriff Cruisers

On December 1, 2010, the Butler County Fiscal Court entered into an agreement with Magnolia Bank for the purchase of three Sheriff cruisers. The principal was \$64,890 to be paid in for annual payments of \$17,416 beginning January 2011. Principal outstanding at June 30, 2012 was \$32,407. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2013	\$ 15,812	\$ 1,604
2014	16,595	821
Totals	<u>\$ 32,407</u>	<u>\$ 2,425</u>

D. Sheriff Truck

On November 14, 2011, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the Sheriff's department. The principal was \$23,866 at a rate of 16.289% interest for a period of 36 months, with interest and principal due in annual installments of \$7,769. Principal outstanding at June 30, 2012 was \$17,366. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2013	\$ 4,940	\$ 2,829
2014	5,745	2,024
2015	6,681	1,088
Totals	<u>\$ 17,366</u>	<u>\$ 5,941</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Financing Obligations (Continued)

E. Land

On December 22, 2011, the Butler County Fiscal Court and the City of Morgantown entered into a joint agreement with individuals for the purchase of land for \$500,000. The agreement was for the development of industrial property. Butler County Fiscal Court paid \$25,000 as a down payment, and agreed to pay the individuals \$225,000 at a rate of 5% interest for a period of ten years, with interest and principal paid monthly. Principal outstanding at June 30, 2012 was \$216,215. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2013	\$ 18,241	\$ 10,397
2014	19,174	9,463
2015	20,155	8,482
2016	21,187	7,451
2017	22,271	6,367
2018-2022	115,187	13,683
Totals	<u>\$ 216,215</u>	<u>\$ 55,843</u>

F. John Deere Tractor/Mower

On August 8, 2011, the Butler County Fiscal Court entered into an agreement with John Deere Credit for the purchase of a John Deere Tractor/Mower for the Road Department. The principal was \$111,327 at a rate of 3.55% interest for a period of 60 months, with interest and principal due in August. Principal outstanding at June 30, 2012 was \$87,457. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2013	\$ 20,715	\$ 3,156
2014	21,463	\$ 2,408
2015	22,237	1,634
2016	23,042	831
Totals	<u>\$ 87,457</u>	<u>\$ 8,029</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 4. Financing Obligations (Continued)

G. Road Grader

On February 24, 2012, the Butler County Fiscal Court entered into an agreement with Caterpillar Financial Services Corporation for the purchase of a Road Grader for the Road Department. The principal was \$171,340 at a rate of 3.2% interest for a period of 60 months, with interest and principal due in February. Principal outstanding at June 30, 2012 was \$134,880. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2013	\$ 32,143	\$ 5,316
2014	33,172	3,288
2015	34,234	2,226
2016	35,331	1,130
Totals	<u>\$ 134,880</u>	<u>\$ 11,960</u>

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 742,324</u>	<u>\$ 531,533</u>	<u>\$ 150,702</u>	<u>\$ 1,123,155</u>	<u>\$ 155,138</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 742,324</u>	<u>\$ 531,533</u>	<u>\$ 150,702</u>	<u>\$ 1,123,155</u>	<u>\$ 155,138</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2010 was \$208,311, FY 2011 was \$233,510, and FYE 2012 was \$304,050.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member Through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
14-Oct	50%	50%
9-Apr	25%	75%
Less than 4	0%	100%

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 5. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

Butler County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2012, Butler County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012
(Continued)

Note 8. Change in Accounting Principles

Butler County has adopted Governmental Accounting Standards Board's Statement Number 54. This standard requires special revenue funds to receive a significant portion of their revenues as restricted for use by entities outside the county. In the prior year, the Local Government Economic Assistance (LGEA) Fund was included in the General Fund. For the current year, because the revenue is restricted, this activity has been reported separately in the LGEA Fund.

Note 9. Interfund Transfers In/Out

	General Fund	Road Fund	Jail Fund	Total Transfers Out
General Fund	\$	\$	\$ 440,000	\$ 440,000
Road Fund	130,793			130,793
Rochester Ferry Fund		4,163		4,163
Total Transfers In	\$ 130,793	\$ 4,163	\$ 440,000	\$ 574,956

Reasons For Transfers:

1. To move resources from the General Fund and Road Fund, for budgetary purposes, to the fund that will expend them;
2. To move resources from the Road Fund to the General Fund in accordance with the State Local Finance Officer approved Road Fund Cost Allocation Worksheet.

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BUTLER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2012

BUTLER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2012

	Local Government Economic Assistance Fund	Rochester Ferry Fund	Reeds Ferry Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 7,435	\$ 61,430	\$ 53,695	\$ 122,560
Total Assets	<u>7,435</u>	<u>61,430</u>	<u>53,695</u>	<u>122,560</u>
FUND BALANCES				
Assigned To:				
Transportation Facilities and Services		61,430	53,695	115,125
Roads	<u>7,435</u>			<u>7,435</u>
Total Fund Balance	<u>\$ 7,435</u>	<u>\$ 61,430</u>	<u>\$ 53,695</u>	<u>\$ 122,560</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2012

BUTLER COUNTY
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2012

	Local Government Economic Assistance Fund	Rochester Ferry Fund	Reeds Ferry Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 27,774	\$ 181,345	\$ 155,114	\$ 364,233
Miscellaneous		929	94	1,023
Total Revenues	<u>27,774</u>	<u>182,274</u>	<u>155,208</u>	<u>365,256</u>
EXPENDITURES				
Protection to Persons and Property	25,000			25,000
Other Transportation Facilities and Services		78,395	63,321	141,716
Capital Projects		16,019		16,019
Administration		41,313	38,192	79,505
Total Expenditures	<u>25,000</u>	<u>135,727</u>	<u>101,513</u>	<u>262,240</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,774</u>	<u>46,547</u>	<u>53,695</u>	<u>103,016</u>
Other Financing Sources (Uses)				
Transfers To Other Funds		(4,163)		(4,163)
Transfers From Other Funds				
Total Other Financing Sources (Uses)		<u>(4,163)</u>		<u>(4,163)</u>
Net Changes in Fund Balance	2,774	42,384	53,695	98,853
Fund Balances - Beginning	<u>4,661</u>	<u>19,046</u>		<u>23,707</u>
Fund Balances - Ending	<u>\$ 7,435</u>	<u>\$ 61,430</u>	<u>\$ 53,695</u>	<u>\$ 122,560</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

June 30, 2012

BUTLER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis

For The Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,116,000	\$ 1,116,000	\$ 1,293,853	\$ 177,853
In Lieu Tax Payments	125,000	125,000	149,369	24,369
Excess Fees	100,000	100,000	164,324	64,324
Intergovernmental Revenue	293,600	293,600	336,599	42,999
Charges for Services	500	500	675	175
Miscellaneous	12,274	12,274	42,572	30,298
Interest	5,000	5,000	7,200	2,200
Total Revenues	<u>1,652,374</u>	<u>1,652,374</u>	<u>1,994,592</u>	<u>342,218</u>
EXPENDITURES				
General Government	934,669	844,436	796,144	48,292
Protection to Persons and Property	180,600	199,517	191,252	8,265
General Health and Sanitation	157,850	179,936	163,217	16,719
Social Services	42,700	46,877	38,525	8,352
Recreation and Culture	8,700	10,558	10,024	534
Debt Service	6,300	50,000	39,319	10,681
Administration	530,661	585,168	561,996	23,172
Total Expenditures	<u>1,861,480</u>	<u>1,916,492</u>	<u>1,800,477</u>	<u>116,015</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(209,106)</u>	<u>(264,118)</u>	<u>194,115</u>	<u>458,233</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(329,082)	(469,282)	(440,000)	29,282
Transfers From Other Funds	130,000	130,000	130,793	793
Total Other Financing Sources (Uses)	<u>(199,082)</u>	<u>(339,282)</u>	<u>(309,207)</u>	<u>30,075</u>
Net Changes in Fund Balance	(408,188)	(603,400)	(115,092)	488,308
Fund Balance - Beginning	<u>408,188</u>	<u>657,700</u>	<u>1,116,329</u>	<u>458,629</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 54,300</u>	<u>\$ 1,001,237</u>	<u>\$ 946,937</u>

BUTLER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,644,736	\$ 1,644,736	\$ 1,790,808	\$ 146,072
Miscellaneous			19,709	19,709
Interest	5,500	5,500	3,949	(1,551)
Total Revenues	1,650,236	1,650,236	1,814,466	164,230
EXPENDITURES				
Transportation Facilities and Services	40,000			
Roads	1,218,200	1,496,517	1,490,522	5,995
Debt Service	29,000	60,331	60,331	
Capital Projects	35,000	2,711	2,163	548
Administration	303,525	277,467	272,485	4,982
Total Expenditures	1,625,725	1,837,026	1,825,501	11,525
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)	24,511	(186,790)	(11,035)	175,755
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(130,000)	(130,000)	(130,793)	(793)
Transfers From Other Funds			4,163	4,163
Total Other Financing Sources (Uses)	(130,000)	(130,000)	(126,630)	3,370
Net Changes in Fund Balance	(105,489)	(316,790)	(137,665)	179,125
Fund Balance - Beginning	105,489	419,489	708,119	288,630
Fund Balance - Ending	\$ 0	\$ 102,699	\$ 570,454	\$ 467,755

BUTLER COUNTY
BUDGETARY COMPARISON INFORMATION
Other Information - Modified Cash Basis
For The Year Ended June 30, 2012
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 279,640	\$ 279,640	\$ 279,238	\$ (402)
Charges for Services	84,406	86,606	88,891	2,285
Miscellaneous	13,000	13,000	29,789	16,789
Total Revenues	<u>377,046</u>	<u>379,246</u>	<u>397,918</u>	<u>18,672</u>
EXPENDITURES				
Protection to Persons and Property	529,434	625,774	591,932	33,842
Administration	176,694	222,754	204,196	18,558
Total Expenditures	<u>706,128</u>	<u>848,528</u>	<u>796,128</u>	<u>52,400</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(329,082)</u>	<u>(469,282)</u>	<u>(398,210)</u>	<u>71,072</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	329,082	469,282	440,000	(29,282)
Total Other Financing Sources (Uses)	<u>329,082</u>	<u>469,282</u>	<u>440,000</u>	<u>(29,282)</u>
Net Changes in Fund Balance			41,790	41,790
Fund Balance - Beginning			<u>4,263</u>	<u>4,263</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 46,053</u>	<u>\$ 46,053</u>

**BUTLER COUNTY
NOTES TO OTHER INFORMATION**

June 30, 2012

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Beginning Fund Balance-Budgetary Basis	\$ 1,116,329
To adjust for prior year payroll account balance	<u>51,011</u>
Total Beginning Fund Balance-Modified Cash Basis	<u><u>\$ 1,167,340</u></u>
Total Expenditures-Budgetary Basis	\$ 1,800,477
To Record Capital Addition Not Budgeted	248,866
To adjust for prior year payroll account balance	<u>51,011</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 2,100,354</u></u>
Total Other Financing Sources and Uses-Budgetary Basis	\$ (309,207)
To Record Finance Obligations Proceeds Not Budgeted	<u>248,866</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ (60,341)</u></u>

Reconciliation of the Road Fund

Total Expenditures-Budgetary Basis	\$ 1,825,501
To adjust for miscellaneous amount	2
To Record Purchase of Asset Not Budgeted	<u>282,667</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 2,108,170</u></u>
Total Other Financing Sources and Uses-Budgetary Basis	\$ (126,630)
To Record Finance Obligations Proceeds Not Budgeted	<u>282,667</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ 156,037</u></u>
Total Beginning Fund Balance-Budgetary Basis	\$ 708,119
To adjust for miscellaneous amount	<u>3</u>
Total Beginning Fund Balance-Modified Cash Basis	<u><u>\$ 708,122</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable David Fields, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of 2012 Butler County, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 13, 2012. Butler County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Butler County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Butler County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Butler County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Butler County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2012-02 to be a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Butler County's financial statements as of and for the year ended June 30, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as item 2012-01.

The Butler County Judge/Executive's response to the finding identified in our audit is included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid.

Percy and Gray, PSC

December 13, 2012

**BUTLER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended 2012

**BUTLER COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2011

STATE LAWS AND REGULATIONS:

2012-01 The Fiscal Court Should Obtain Appraisals For The Purchase Of Land As Required By KRS 67.080

KRS 67.080 requires that “the county shall pay no more than the highest appraised value, as determined by a Kentucky certified real property appraiser.” This valuation is not required if the purchase price is \$40,000 or less. In December 2011, Butler County Fiscal Court purchased land jointly with the City of Morgantown from four individuals for a total price of \$500,000. Also during the prior year, Butler County purchased land jointly with Ohio County for \$45,000 for the Rochester Ferry. Both purchases took place without obtaining an appraisal for the property.

We recommend that the County always obtain an appraisal before land is purchased to be in compliance with KRS 67.080. This will ensure that the county has paid a fair price for the land.

Judge/Executive’s Response: County did not have knowledge of appraisal requirement as set forth by KRS 67.080. County will obtain appraisals for future land purchases.

INTERNAL CONTROL – MATERIAL WEAKNESS:

2012-02 The Fiscal Court Should Maintain A Current Listing Of Capital Assets

During our test of capital assets, we discovered that the county did not maintain a current listing of capital assets. The listing supplied to the auditors was for the fiscal year 2011 and had not been updated for \$1,217,011 in additions and \$93,600 in disposals due to a trade in. Also, the listing did not included \$357,257 in depreciation expense for the fiscal year as well as the decrease in accumulated depreciation of \$93,100 due to the previously referenced trade in.

We recommend the Fiscal Court maintain a current capital asset listing adjusted for all additions and disposals.

Judge/Executive’s Response: The official did not respond.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2012**

Appendix A

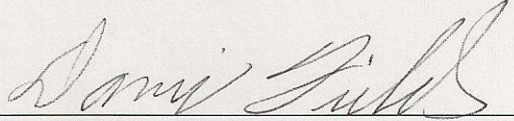
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

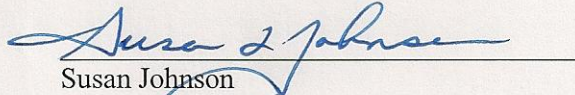
BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2012

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in dark ink, appearing to read "David Fields", written over a horizontal line.

David Fields
County Judge/Executive

A handwritten signature in blue ink, appearing to read "Susan Johnson", written over a horizontal line.

Susan Johnson
County Treasurer

